

Finance and Public Administration Committee

Replacing EU Structural Funds in Scotland

Written Submission from Comhairle nan Eilean Siar

Dear Mr Gibson

Thank you for your letter of 4 October 2021 regarding the above. This is a matter of great interest and importance to Comhairle nan Eilean Siar as the Western Isles have benefited significantly from EU Structural Funds over some thirty years. The Comhairle is keen therefore to contribute to any work being carried out by the Finance and Public Administration Committee in this important area to ensure that UK Government's new funding programmes continue to have similar if not larger sums of funding than EU Structural Funds over the years, including Rural Development and Fisheries funding.

In the absence of any formal UK Government consultation on the UK Shared Prosperity Fund (UKSPF), there have been several consultations and Calls for Evidence on the Replacement of EU Structural Funds at Scottish Government and Parliamentary level, over the last two to three years, with the expectation being that the UK Government would follow the principles of the devolution settlement in the governance and delivery of its future funding programmes. For your own information, the Comhairle has responded to the Scottish Parliament's Finance and Constitution Committee's Call for Views on this matter and has also given evidence to that Committee. The Comhairle also responded to the 'All Party Parliamentary Group (APPG) on Post-Brexit Funding for Nations, Regions and Local Areas'. The Comhairle broadly supported the recommendations of the APPG's Report in terms of overall budget value; financial allocations, including regional and sub-regional allocations; funding that would address regional priorities; and governance arrangements that would give Local Authorities a key decision making role in the formation and delivery of future UK Government Funds.

The Comhairle contributed to Scottish Government's Report on the 'Replacement of European Structural Funds post-EU Exit in Scotland'. This Report included several assumptions and recommendations that the Comhairle supports, such as the retention of a similar or greater quantum to that of EU Structural Funds and the retention of ERDF, ESF, Rural Development and LEADER, and European Maritime Fisheries Fund type activity within the future UKSPF.

The Comhairle, in cooperation with Shetland and Orkney islands Councils, also made a direct submission to UK Government's Communities Team earlier this year which outlined what islands have to offer the UK Economy, what the key challenges are and how these might be addressed, at least in part, through regional priority setting, decision making and sufficient governmental intervention and investment, whether that be at UK or Scottish Government level. The fact is that the Comhairle

is equally comfortable dealing with UK Government or Scottish Government and ‘*Our Islands Our Future*’ and the Islands Deal are excellent examples of how to deal productively with both governments simultaneously.

The Comhairle responded to the House of Commons Select Committee on Scottish Affairs: ‘Call for Evidence and the Shared Prosperity Fund’, also earlier this year, reiterating the representations made to date by the Comhairle on the UKSPF. All the Comhairle’s responses to these various consultations and Calls for Evidence on the UKSPF and wider external funding context are in the public domain and if the Committee wishes to receive these directly, that can be arranged on request.

In answer to the specific questions you raise in your letter I would respond as follows.

The approach taken to identifying areas of greater need or priority

The Western Isles is a Priority 1 area for the Community Renewal Fund (CRF) and as the CRF is the precursor to the UK Shared Prosperity Fund, one would assume that this would continue to be the case. On 11 March 2021, the methodology note for the UK CRF was published. As we know, this Fund will help inform the design of the UKSPF which in turn will replace EU Structural Funds. There are five indicators determining priority areas, weighted as follows: Productivity 30%, Household Income 10%, Skills 20%, Unemployment rate 20%, and Population density 20%.

As regards the LUF, the Western Isles is a Priority 2 area which is disappointing from a Western Isles and an islands’ socio-economic perspective which is so dependent on transport infrastructure and lifeline services, given the emphasis on improving transport infrastructure in the LUF. On 11 March 2021 the methodology supporting the Levelling Up Fund’s prioritisation was published. The index was developed in accordance with the following core principles and in line with the objectives of the Fund:

- economic recovery and growth;
- improved transport connectivity; and
- regeneration

A key area of difference between England and Scotland is the category around the need for improved transport connectivity. England has a 25% weighting towards its overall rate, but this category does not appear in Scotland’s indicators which is probably the area in which islands and the wider Highlands and Islands could have gained most. Within the Highlands and Islands, only North Ayrshire Council is in a Priority 1 category. It should also be noted that the LUF is subject to a judicial review before the end of this year which will focus on how robust and equitable the methodology has been in terms of determining the prioritisation of regions for LUF.

All local authorities are eligible for £125k of capacity funding for LUF, and the Comhairle is currently using these funds to work with an external consultant to

formulate two bids to the LUF at the second funding round, which has yet to be confirmed. CRF capacity funding of £25k has not yet been received by local authorities.

The process of bidding for funding including the types of projects you sought funding for

The UK Government announced the launch of new Funds in March 2021, the UK CRF and the Levelling Up Fund (LUF). The Comhairle publicised these Funds to elicit interest from community groups and requested that community groups complete the application forms for both Funds and submit these to the Comhairle by a certain deadline. This was somewhat problematic in that the application forms for both CRF and LUF were more geared to the local authority submission rather than community groups. However, in the absence of any real guidance, it was the only means of obtaining comprehensive information about local community-led revenue and capital projects. Applications to the CRF and the LUF had to be submitted to UK Government by 18 June 2021. These were challenging timescales, particularly as these could involve CRF bids of up to £3m, and LUF bids of up to £20m and £50m (Transport).

As matters transpired, the Comhairle decided to submit a CRF bid only, up to a value of £3m, and defer the LUF bids to the second round of funding. Decisions were anticipated by the end of July 2021, but at the time of writing (28 October 2021), no decisions have been announced on CRF. An announcement of successful LUF bids to the first round was made on 27 October 2021.

The Comhairle received a total of 21 CRF bids from community groups and an assessment panel of senior Comhairle (and HIE) officers scored these against programme criteria and made recommendations as to which projects should be submitted. These were approved at a special meeting of the Comhairle on 9 June 2021 and were as follows:

- Strategic Infrastructure Feasibility
- Outer Hebrides Heritage Resilience and Development
- Western Isles Employability and Skills Hub
- An Lanntair
- Port of Ness Harbour Ltd
- Sealladh Hiort
- Harris Development Ltd - Leverburgh Marina
- Harris Development Ltd – West Loch Tarbert Regeneration
- Taigh Dhonnchaidh
- Calanais 2025
- Point and Sandwick Trust/Lews Castle College Innovation Centre
- Horshader Community Development
- Ionad Hiort
- Urras an Taigh Mhòir

These are mostly community-led cultural and heritage bids which represent a total sum of £2,936,680 to the CRF. A similar process was undertaken for LUF and the

Comhairle has approved the projects which will be submitted to the LUF's second funding round, one bid of up to £20m bid, under the broad headings of Regeneration; Transport; and Culture and Heritage, and a stand-alone Transport bid of up to £50m. These are currently being developed with an external consultant with a view to submitting bids to the LUF's second funding round.

How successful you have been in in securing funding

In terms of the CRF, awards have not been announced. As mentioned previously, the Comhairle did not submit LUF bids at the first funding round.

The appropriateness of any timescales and criteria which determine when, how and on what spending must be spent

The Conservative Manifesto has stated that the UK Shared Prosperity Fund will be, among other things, "...*targeted where it is needed most.*" Allocation of funds should be on basis of need, using agreed and reliable indicators such as GVA/GDP in addition to more robust deprivation indices or more sophisticated selection criteria such as population sparsity, remoteness, social and economic fragility, insularity and peripherality, average wage levels, fuel and child poverty (SIMD for the Western Isles is an unsuitable measure). While GVA per head can provide estimates of economic activity, the measure does not provide adequate insight into poverty or quality of life. Measures such as disposable income and the regional human poverty index give a more nuanced view of regional poverty. Allocations should also reflect the additional costs of living in remote rural and particularly island areas by undertaking a Brexit impact assessment and applying the principle of island proofing on any funding allocation to the Scottish Islands. The Minimum Income Standard for Remote Rural Scotland report found that households in remote rural Scotland require significantly higher incomes to attain the same minimum living standard as those living elsewhere in the UK. This is partly due to the costs of additional travel, but mainly caused by the higher cost of buying the same things as elsewhere, and the extra cost of keeping warm.

The UK SPF has yet to be formally consulted on, although the launch is anticipated in Spring 2022. That may prove ambitious given the pace of transition thus far, from EU Structural Funds to UK Government Funds. While much detail has yet to emerge, it is acknowledged that the UK SPF has a 'Place' and 'People' element, essentially post-ERDF and ESF type activity respectively. It looks as if the ESF replacement funding is likely to be run by DWP which has no real experience of working with ESF. Historically, ESF programmes have been run by local authorities but it would appear that any follow-up will not be through local authorities. A further matter of concern is how little has been mentioned of Rural Development (including LEADER) and Fisheries funding which may be dealt with separately from UK SPF. If that transpires to be the case, it is disappointing from a 'localism' and 'place' point of view.

With specific reference to both CRF and LUF, the timescales between publicising Funds and the deadlines for submission of bids was challenging in the extreme, particularly for smaller local authorities with fewer resources. This probably accounts for so few LUF bids submitted from the Highlands and Islands. Most stakeholders would support more realistic timescales between calls for bids and the deadline for the submission of these bids, with quicker decision making.

In the context of future regional policy and funding, the Western Isles, in common with remote rural and peripheral areas and islands, has specific socio-economic challenges such as a small and limited private sector, over reliance on the public sector, remoteness from markets, high costs of goods and services, high cost of living, depopulation, population sparsity and demographic imbalance, a lack of affordable housing, high levels of child and fuel poverty, and limited infrastructural and digital connectivity. As islands with permanent geographic handicap, priorities continue to be:

- infrastructural and digital connectivity;
- investment in sustainable growth sectors such as renewables;
- investment in new technologies;
- retention and increase of our working age population;
- relocation of public sector posts to the Western Isles;
- affordable housing and rural resettlement initiatives;
- support for our traditional industries;
- control over our natural assets;
- investment in our private sector through an incentivising apprenticeship programme;
- investment in our education and skills;
- expansion of local UHI provision;
- reduction in poverty in all its facets;
- support for aviation and ferries transportation; and
- an overall reduction in the cost of living.

That list is by no means exhaustive and is underpinned by some of the most acute population challenges faced by any region in the country. The Comhairle would welcome a future funding programme flexible enough to address these key issues and that is why local authority intervention at an early stage in proceedings is vital.

What has worked well and what needs to be improved in terms of future funding approaches, including the extent to which the new and emerging (multi-government) landscape of economic development will enable effective use of public funds

In terms of CRF and the LUF guidelines i.e., the prospectus and supporting documentation was publicised in a piecemeal way and was still being issued as funding bids were being prepared. While acknowledging that these are new programmes with new working relationships, it was evident that a lot of the guidance was very much an iterative process and that UK Government officials from the

various Ministries and Scotland Office did not always have the answers to stakeholder questions. That would need to change in terms of the UK SPF; clarity from the beginning will be vital.

As the precursor to these new UK Government Funds, it is worth noting that the most successful EU Structural Programmes in the Highlands and Islands were the most devolved, e.g., the Objective 1 programme 1994-1999 and the HISTP Programme 2000-2006. The H&Is Convergence programme saw the emergence of Strategic Delivery Bodies and CPP mechanisms which had their difficulties in terms of delivery, while the current EU Structural Funds programmes 2014-2020 are heavily centralised at Scottish Government level, based on a Lead Partner model, consisting mostly of government departments, national or regional agencies. These programmes have been beset with decommitments, suspensions of funding, disproportionate audit regimes and underspends.

Local authorities have largely been on the periphery of the current EU Structural Funds 2014-2020/22 programmes at all stages of the process, from consultation, governance to delivery, being largely confined to ESF Employability and Poverty and Social Inclusion and ERDF Business Gateway, which represented a relatively small ratio of overall funding. That funding mechanism has not been successful and should not be replicated. National programmes should always have a territorial dimension, reflecting disparities between and within regions. While none of the local authority areas in Scotland voted for Brexit, we are where we are, and if it offers any positives at all, and that is in doubt, there may be greater flexibility on how repatriated funds are spent domestically.

The sustainability of funding for the longer term operation of projects or capital investment delivered under these funds

The Comhairle would support seven-year programmes as with previous EU Structural Funds programmes. This would allow a degree of forward planning, project development, partnership working, maximisation of collective resources, and the sourcing of sufficient match funding. With diminishing public sector funding and dwindling local authority capital programmes, year on year, sustainable external funding and perhaps higher intervention rates, particularly for areas in greatest need, such as islands and remote rural areas, would be hugely beneficial to local and regional economies within the Highlands and Islands.

The evaluation and accountability mechanism in place or proposed to assess the effectiveness of any funding provided.

While somewhat premature in the sense that the Comhairle has not yet submitted a LUF bid or bids, the role of and obligations placed on Accountable Bodies under LUF, based on a successful bid or bids, are of concern.

These conditions of offer are as follows:

“As part of the application, your Chief Financial Officer will be required to sign a declaration to confirm that the Council:

- has allocated sufficient budget to deliver this scheme based on its proposed funding contribution
- accepts responsibility for meeting any costs over and above the UKG contribution requested, including potential cost overruns and the underwriting of any funding contributions expected from third parties
- accepts responsibility for meeting any ongoing revenue requirements in relation to the scheme
- accepts that no further increase in UKG funding will be considered beyond the maximum contribution requested and that no UKG funding will be provided after 2024-25
- confirm that the authority commits to ensure successful bids will deliver value for money or best value
- confirms that the authority has the necessary governance / assurance arrangements in place and that all legal and other statutory obligations and consents will be adhered to.”

Should you require further information or clarification on the UK SPF and the Comhairle’s responses to date on this matter, or any of the issues raised in this letter, please contact Angus Murray.

With best regards,

Malcolm Burr
Chief Executive